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August 8, 2000

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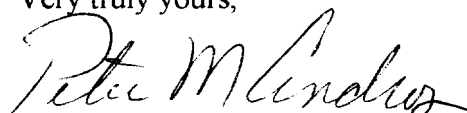
Re: HIGH COST UNIVERSAL SERVICE SUPPORT FOR NON-RURAL  
CARRIERS FOR THE YEAR 2001  
CC Docket No. 96-45

Dear Ms. Salas:

Enclosed for filing please find the original plus four (4) copies of Comments of  
AT&T Corp. in the above captioned matter.

Thank you.

Very truly yours,

  
Peter M. Andros

Encl.

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of )

Federal-State Joint Board on )  
Universal Service )

CC Docket No. 96-45  
DA 00-1626

**COMMENTS OF AT&T CORP.**

Pursuant to the Commission's *Notice*,<sup>1</sup> AT&T Corp. ("AT&T") submits these comments concerning the use of updated wire center line counts for computing universal service support for non-rural carriers for the year 2001.

**I. INTRODUCTION AND SUMMARY**

The non-rural universal service support mechanism currently computes support payments using two different line count data sets that are of different vintages. Because these data do not match, and because one of the data sets is over one and one half years old, their use may result in a significant overestimation or underestimation of the amount of support for which local exchange carriers ("LECs") are eligible. To remedy this problem, the Commission should open proceedings to identify line count data sets that are more accurate, current and consistent for use in computing universal service support. In the interim, the Commission should adopt its proposal to use the most recent line count data for calculating universal service support.

<sup>1</sup> Public Notice, *Common Carrier Bureau Seeks Comment On Updating Line Counts For Calculating High-Cost Universal Service Support For Non-Rural Carriers For The Year 2001*, CC Docket No. 96-45, DA 00-1626 (July 24, 2000) ("*Notice*").

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Because the most recent line count data set submitted by the incumbent LECs is not directly compatible with the Commission's cost model, the Commission should direct the incumbent LECs to provide the information necessary to make these line count data compatible with the Commission's cost model. In the alternative, the Commission should itself conform these submitted line count data as best as it can using the information derived from older line count data submissions, current cost model data, and ARMIS data.

## **II. THE COMMISSION SHOULD USE THE MOST ACCURATE DATA FOR DETERMINING UNIVERSAL SERVICE SUPPORT.**

As the Commission recently reaffirmed, “[i]n the Telecommunications Act of 1996, Congress directed this Commission and States to take the steps necessary to establish explicit support mechanisms to ensure the delivery of affordable telecommunications service to all Americans while opening telecommunications markets to competition.”<sup>2</sup> In response to this directive, the Commission has taken steps to implement a universal service support mechanism “that will be sustainable in an increasingly competitive marketplace.” *Id.* One of the prime goals of the universal service support mechanism, as expressed by the Commission, is to “send the correct signals for entry, investment, and innovation.”<sup>3</sup> Thus, it is imperative that the Commission use the most accurate and recent inputs that are available to implement the universal service support mechanism.

There are two stages to computing the required universal service support. In the first stage, a forward-looking model is used to calculate basic local service costs and the average

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<sup>2</sup> *Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High-Cost Support for Non-Rural LECs*, Fifth Report and Order, 13 FCC Rcd. 21323, ¶ 1 (1998).

<sup>3</sup> *Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High-Cost Support for Non-Rural LECs*, Tenth Report and Order, 14 FCC Rcd. 20156, ¶ 5 (1999).

amount of universal service support that each carrier requires per line. In the second stage, this per-line support figure is multiplied by the number of eligible lines provided by the eligible carrier. A disconnect between these two stages arises because the forward-looking model uses 1998 line count data to compute average per-line support levels for eligible carriers. These average support levels are then applied to more recent line counts reported quarterly to the Universal Service Administration Company ("USAC").<sup>4</sup> This mismatch between the vintage of the line count data used to estimate per-line support and the vintage of the line count data used to determine the amount received by a carrier may result in significant overestimation or underestimation of the amount of support for which carriers are eligible. For example, use of these mismatched data is likely to inflate unnecessarily the amount of support if the number of lines in high cost areas is growing at a higher rate than in low cost areas. As the Commission has explained, this occurs because the use of old 1998 line count data to compute per-line support estimates results in payments that do not reflect the economies of scale associated with operating all of the lines that have been added since 1998. *Notice* at 2.<sup>5</sup>

Similarly, using old line count data to estimate per-line support and newer data to estimate payments can distort the amount of support for which carriers are eligible under the hold harmless provisions.<sup>6</sup> In particular, under the hold harmless provisions, the per-line support

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<sup>4</sup> See *Federal-State Joint Board on Universal Service*, CC Docket 96-45, Twentieth Order on Reconsideration, FCC 00-126, ¶ 9 (rel. April 7, 2000).

<sup>5</sup> The economies of scale associated with operating additional lines are significant and the cost model accounts for them when the correct data are used. See *Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd. 8776, 8915 (1997) ("inclusion of multi-line business services and multiple residential lines will permit the cost study or model to reflect the economies of scale associated with the provision of these services").

<sup>6</sup> See 47 C.F.R. §§ 36.601, 611-12, 631, 54.307, 309, 311.

amount is determined by dividing a carrier's fixed hold harmless amount by the line count determined from the old 1998 data, causing the per-line hold harmless support floor to be higher than it would be if the Commission used current (higher) line count estimates.<sup>7</sup> An eligible carrier may then receive an amount of support equal to the inflated per-line support floor multiplied by the number of lines reported by that carrier to USAC in the most recent quarter.<sup>8</sup>

The Commission already recognizes that continued use of the 1998 line count data is inappropriate. *See Notice* at 2. However, the Commission's proposal for amelioration would only perpetuate the use of outdated line count data. That is, its proposal to replace 1998 line count data with 1999 line count data in the forward-looking model for estimating per-line universal service support during the year 2001 would still result in using data that are, on average, over one and one half years old, and which will not match to the number of lines that the incumbent LECs will advance as eligible for support.

The Commission should instead estimate, on a forward-looking basis, the number of lines that will be in use at the time universal service support amounts are calculated. Accordingly, year 2001 per-line universal support levels should be estimated using the number of lines that are projected to be in use in the year 2001. The exact method for estimating these line counts should be determined in future Commission proceedings. However, one way that these projected estimates could be computed is to use historical line count data submitted by incumbent LECs to estimate line count growth rates. In this way, the Commission would avoid

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<sup>7</sup> The Joint Board has recently advocated the phase out of hold harmless support. *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision, FCC 00J-1 (rel. June 30, 2000).

<sup>8</sup> *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Twentieth Order on Reconsideration, FCC 00-126 (rel. April 7, 2000).

the perpetual use of outdated and mismatched line count data in computing universal service support levels.<sup>9</sup>

In all events, until the Commission adopts such a method of projecting modeled line counts to the year for which support will be calculated, the Commission should, at a minimum, use the most recent data that are available in order to minimize the errors in computing universal service support payments. Thus, for per-line cost modeling purposes, the Commission should use the year-end line count data filed by carriers on July 31, 2000.

### **III. THE DATA FILED ON JULY 31, 2000 SHOULD BE ALLOCATED TO THE CLASSES OF UNIVERSAL SERVICE USED IN THE COMMISSION'S COST MODEL USING DATA COLLECTED FROM THE INCUMBENT LECs.**

Because the Commission's forward-looking model makes important use of a line's service classification, (*i.e.* business line, residence line, special line (non-switched), payphone line or single business line), in establishing average per-line costs, it is vital that such information be made available by incumbent LECs. However, the line count data that were filed by the incumbent LECs on July 31, 2000 do not allocate lines among these classes of service – despite the fact that they certainly have access to such information.<sup>10</sup> The Commission should, therefore, direct the incumbent LECs to file the information necessary to allocate the line count

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<sup>9</sup> In addition to adopting this forward-looking approach to estimating line counts, AT&T encourages the Commission to implement the changes to the cost model platform and cost model inputs that were suggested by AT&T last winter. See AT&T Petition for Reconsideration, *Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support For Non-Rural LECs*, CC Docket Nos. 96-45 & 97-160 (filed Jan. 3, 2000); *Notice of Ex Parte Presentation*, Letter from Richard N. Clarke to Magalie Roman Salas, CC Docket Nos. 96-45 & 97-160 (filed Feb. 16, 2000).

<sup>10</sup> Indeed, they provided that information with the line count filing made pursuant to a previous Commission Order. See *Federal-State Joint Board on Universal Service*, CC Docket Nos. 96-45, *Forward Looking Mechanism for High-Cost Support for Non-Rural LECs*, CC Docket No. 97-160, Order, DA 99-1406 (rel. July 19, 1999) (“1999 Data Request”).

data to the classes of service used in the cost model.<sup>11</sup> In addition, the Commission should direct the LECs to also file non-switched line counts (which were not included in the data that were filed on July 31, 2000) for use in the cost model.

If the Commission does not obtain the requisite information from the incumbent LECs, then the Commission should use the information contained in the line count data that were filed pursuant to the *1999 Data Request*, which does allocate lines among the classes of service. Specifically, the proportion of lines in each class of service can be computed from the data submitted pursuant to the *1999 Data Request* and applied to the line count data filed on July 31, 2000.<sup>12</sup>

A further adjustment should be made to address the fact that the data that were filed on July 31, 2000 do not include line count data for special (or non-switched) lines. Again, the data submitted pursuant to the *1999 Data Request* can, if necessary, be used to estimate the appropriate number of non-switched lines. In particular, the ratio of non-switched lines to switched lines in the data filed pursuant to the *1999 Data Request* can be computed and applied to the data filed on July 31, 2000 to estimate the number of non-switched lines in service during that time period.

In the event that the Commission chooses not to make the line count information filed by the incumbent LECs available for public inspection, the Commission should use existing

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<sup>11</sup> To the extent that the Commission uses data filed by the incumbent LECs in the cost model, that data, along with the cost model outputs derived from that data, must be made publicly available in order to ensure that interested parties are able to verify the integrity of the model. *See Comments of AT&T Corp., Federal-State Joint Board on Universal Service*, CC Docket No. 96-45 (filed June 26, 2000).

<sup>12</sup> This approach is only feasible, of course, if the Commission makes the incumbent LEC line count submissions available for public inspection.

public data to allocate the line count data filed on July 31, 2000 among the classes of service used in the cost model. Although this would clearly be a second-best solution, the Commission could use the allocations in the existing cost model database, updated to reflect the most current line count information. These data should be updated by normalizing those line counts (by class) to reflect the distribution among the classes reported in the incumbent LECs' 1999 ARMIS data.<sup>13</sup> The resulting wire center specific class allocations can then be applied to the line count data filed on July 31, 2000. In addition, the ratio of non-switched lines to switched lines must be determined from the cost model and ARMIS data so that the ratio can be applied to the line counts filed on July 31, 2000 to determine the number of lines that should be allocated to non-switched lines.

#### **IV. THE COMMISSION AND THE INDUSTRY SHOULD COMBINE RESOURCES TO MATCH WIRE CENTERS IN THE DATA SUBMISSIONS WITH THE WIRE CENTERS IN THE COST MODEL.**

The July 31, 2000 wire center line count data must also be matched to the wire centers in the Commission's cost model. To the extent that the Commission has already matched the data filed pursuant to the *1999 Data Request* with the wire centers in the cost model the "matching problem" would be solved if the wire centers in the July 31, 2000 data set were matched to the data filed pursuant to the *1999 Data Request*. Because, the incumbent LECs filed both data sets, they should be required to match the wire centers in the July 31, 2000 submission with those filed pursuant to the *1999 Data Request*. However, if this approach is not possible, then the Commission should employ the same method it used to match the quarterly data filed with USAC to the *supported* wire centers in the cost model to match the *unsupported* wire

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<sup>13</sup> The ARMIS data cannot be used to determine the appropriate allocations because these data are collected at the study area level rather than at the wire center level.



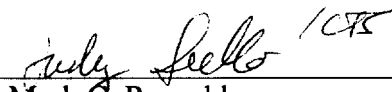
centers. If necessary, the Commission should draw upon the expertise of industry participants to help match the wire centers in the data submissions with the wire centers in the cost model.

### CONCLUSION

For the foregoing reasons, the Commission should open a proceeding to determine the appropriate method of *estimating* current line counts for use in the Commission's model. Until such a proceeding is concluded, the Commission should use the most recent line count data that are available for the purposes of computing the amount of universal service support to be paid to an eligible carrier.

Respectfully submitted,

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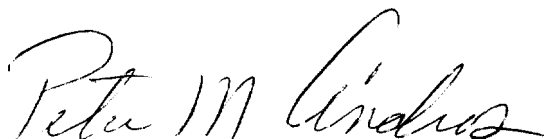
*Attorneys for AT&T Corp.*

August 8, 2000

**CERTIFICATE OF SERVICE**

I hereby certify that on this 8<sup>th</sup> day of August, 2000, I caused true and correct copies of the forgoing Comments of AT&T Corp. to be hand-delivered for filing with the Federal Communications Commission to the persons below.

Dated: August 8, 2000  
Washington, D.C.

  
\_\_\_\_\_  
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<sup>1</sup> Four (4) copies plus original.

<sup>2</sup> Three (3) copies containing the Comments of AT&T Corp.

<sup>3</sup> One (1) copy plus one (1) disk containing the Comments of AT&T Corp. in a read-only electronic format.